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Child Care & Parent Productivity: Making the Business Case

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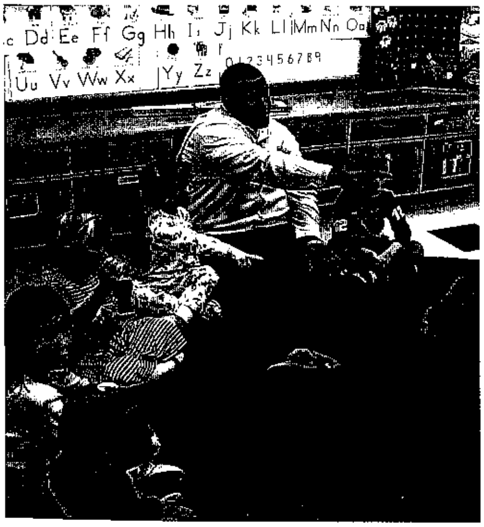

By
Karen Shellenback

Cornell University
Cornell Cooperative Extension
Department of City and Regional Planning
W. Sibley Hall, Cornell University
Ithaca, NY 14853-6701
http://economicdevelopment.cce.cornell.edu

Child Care and Parent Productivity: Making the Business Case

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Quality Child Care Supports the Bottom Line

Quality child care for employees is important to employers because it improves productivity, reduces absenteeism, cuts turnover... and can increase company value.

- In a 2000 American Business Collaboration report, 63 percent of member employees reported improved productivity while using quality dependent care (ABT Associates, 2000).
- Twenty nine percent of employed parents experienced some kind of child care breakdown in the past three months, and those child care breakdowns were associated with absenteeism, tardiness, and reduced concentration at work (Bond et al., 1998).
- The average American working parent misses nine days of work per year (Carillo, 2004). As children move through daycare and into elementary school, the number of days missed increases to thirteen. These absences are costly for employers, as is turnover, estimated at one and half times annual salary for an exempt employee and three-quarters of annual wages for hourly workers (Phillips and Resiman 1992).

Child care breakdowns leading to employee absences cost businesses $3 billion annually in the United States. Fifty-four percent of employers report that child care services had a positive impact on employee absenteeism, reducing missed workdays by as much as 20% to 30% (Friedman, 1986). Furthermore, a child care program can reduce turnover by 37% to 60% (Ransom & Burud, 1988). Employee retention is a key driver of customer retention, which in turn is a key driver of company growth and profits. One study showed that a 7% decrease in employee turnover led to increases of more than $27,000 in sales per employee and almost $4,000 in profits per employee (Huselid and Becker, 1995). Companies with childcare programs or who are considering them need to be able to measure the value of these programs as a return on their investment.

The Importance of Measurement

Measurement is the key to successful business practices... and key business impacts are measured every day. Sensitive corporate measurements are tracked and managed daily, monthly, quarterly, yearly ... in fact, whole industries have been built around such metrics: measuring market share, shareholder value, return on investment (ROI) of new business investments, break even point of a new product line, costs of benefit plans (particularly healthcare insurance), marketing and advertising costs. However, the most important measurements in business have remained elusive, measuring the impact of human capital. While there has been a strong intuitive link between effective personnel management practices and increased business outcomes, the link has remained tentative, most likely because of the assumption that, "what really counts can't be counted" – the human factor is much too complex to simplify into financial calculations.

Until recently, estimating the economic impact of work/life initiatives has been sporadic at best. For over two decades human resource (HR) managers and executives have tried to make the "business case" for work/life initiatives by relying on corporate anecdotal information and national demographic statistics.

Renewed emphasis on the importance of work/life strategies (of which child care is a part) is causing increased interest in how to measure the impact of work/life policies on business performance. This article will discuss:

- studies linking "people effectiveness" and work/life strategies with improved business performance,
- why metrics have not traditionally been collected in the human capital and work/life arena.
- why it is important to collect human capital data,
- a "5 Step Plan" for human resource and work/life professionals to use to initiate data collection, including possible sources for data collection,
- examples and explanations of economic impact formulas: ROI, Cost Benefit Analysis, Break Even Point and Payback, as well as work/life related absenteeism and turnover cost examples.

Historical Perspective

Since the 1987 Hudson Institute publication, *Workforce 2000: Work and Workers for the 21st Century,* there has been much discussion about workforce projections and the scarcity of highly skilled workers due to demographic and cultural forces, including the "Graying of America" (Hudson Institute, 1990). In the 1980's and for most of the next 20 years, recruiting and retaining a talented workforce became a much discussed priority and served as the major impetus for work/life initiatives. The field started with forward thinking organizations investigating the possibility of offering corporate child care services to attract and retain the burgeoning flow of female workers into the workforce.

In 1989, the Families and Work Institute published the *Productivity Effects of Workplace Child Care Centers*, one of the first studies to delineate the effects of child care on parent productivity (Families and Work Institute, 1989). In the early 1990's practitioners focused on the needs of all American workers, as well as women, and many national demographic studies such as: the *National Study of the Changing Workforce*, 1993 (and 1997, 2003) and *Women: the New Providers*, 1995, both completed by the Families and Work Institute, as well as Catalyst's *Women in Corporate Management*, 1990, provided the field with statistics on hours worked and work/family stress (Bond et al., 1998; Catalyst Inc., 1990; Families and Work Institute, 1995). For approximately ten years, these cornerstone studies provided much of the national demographic data that has been used to bolster the "business case" for work/life initiatives. It was not until the late 1990's that organizations began to investigate the "ROI" of workplace policies implemented to alleviate reported work/family stress.

A New Age

The much quoted "Sears Study," although not a work/life study, was the catalyst for an increased focus on work/life economic impact research. As the new millennium approached, many organizations realized the importance of substantiating the financial impact of their work/life efforts.

In 1998, Bright Horizons Family Solutions (a national quality child care provider) studied "family supportive companies" and found that these companies consistently outperformed the performance of the Standard & Poor 500 companies over the past three years (Bright Horizons Inc., 2004). Furthermore in 2000, Vanderbilt University and Hewitt Associates studied *Fortune's 100 Best Companies to Work For* list[1] and found that the companies on this list outperformed similar companies and "showed substantial financial performing advantage"(i.e. showed cumulative stock returns 50% higher than the market norm) (Vanderbilt University and Hewitt Associates, 2000). The researchers found that organizations with progressive human resource programs have higher operating incomes, higher returns on assets and spend more money on research and development. In summary, being an "employer of choice" is related to profitability. In 2000, another landmark project was completed. Watson Wyatt produced a large study researching 405 NASDAQ and New York Stock Exchange (NYSE) companies. The *Linking Human Capital and Shareholder Value* research found a clear relationship between the effectiveness of a company's human capital and the creation of superior shareholder returns (Watson Wyatt Worldwide, 2001). The study asked a variety of questions about how organizations carry out their human resource practices, including pay, development, communication, and staffing. After collecting the survey data, Watson Wyatt matched the human resources (HR) departments' responses to objective financial measures of each company's value including: market value, three and five year shareholder returns, and Tobin's Q (an economist's ratio that measures an organization's ability to create value beyond its physical assets). Watson Wyatt also gathered data on 7,500 employees at all job levels and in all industries. Participants answered 150 questions about their attitude toward their workplaces and work lives. They found that companies with a high human capital index have high shareholder value. Companies with a low human capital index have low shareholder value. Watson Wyatt also demonstrated that the correlated relationship was so clear that a significant improvement in 30 key HR practices was associated with a 30% increase in market value. In addition, those organizations ranked with a high employee commitment level outperformed others in total shareholder value (three year total return to shareholders: 112% for companies with high commitment employees vs. 76% for companies with low commitment employees). According to Watson Wyatt, employee commitment does not translate to old fashioned loyalty, rather, it reflects employees who are satisfied, proud to work for their company and would recommend their company to friends. They believe that this research demonstrates that good human capital management and high economic value move in the same direction, creating a "virtuous cycle."

In 1998, Sears Corporation broke new ground with the release of their pivotal study, The Employee-Customer-Profit Chain at Sears (Rucci et al., 1998). This study found very strong causal links between employee satisfaction, customer satisfaction and increased profits. Employees that were happy working for Sears had higher customer service ratings, which in turn led to increased profits –"every 5 percent improvement in employee attitudes drives a 1.3 percent improvement in customer satisfaction and a .5 percent growth in store revenues." (Rucci, Kirn, and Quinn, 1998). This study was a major turning point in the work/life field, demonstrating that ***satisfied employees are profitable employees.*** *Work/life initiatives had demonstrated for years that availability and usage of such programs increased employee satisfaction, but no previous study had linked satisfaction with positive economic impact.*

2003). Other institutes, such as Mercer Consulting, the Saratoga Institute (now part of PwC's Human Resource Services practice) and Cornell University's Human Capital Bridge Framework have begun the complicated process of measuring the value of human capital (Mercer Investment Consulting, 2004; Zimmerman, 2001). Again, there is a growing body of evidence that people really are the key to corporate performance, and the creation of sustainable strategic advantage.

However, most of the research to date has been completed by outside organizations reviewing the data of multiple corporations. Only upper echelon companies have collected data within their respective organizations to measure the economic impact of their internal initiatives. According to the 2001 Harvard Business School Press, *The HR Scorecard: Linking People, Strategy and Performance*, 968 firms researched by HR management gurus, Becker, Huselid and Ulrich, recognize the lack of formal estimating procedure (Elswick, 2001). The following chart, from the *HR Scorecard*, indicates what these 968 companies are or are not measuring:

	Do NOT Determine	Subjective Estimate or Intuition	Formal Estimation Procedure
Employee replacement costs	38.2%	48.8%	13.0%
Economic value of employees to the organization	67.4%	26.6%	6.0%
Cost of various employee behaviors (absenteeism, smoking, etc.)	48.3%	38.2%	13.5%
Economic benefits of various training levels	47.2%	46.5%	6.3%
Economic benefits of increasing job satisfaction, organizational commitment or similar job attitudes	54.9%	42.3%	2.8%
Economic benefits of high, medium, and low performance on a particular job	54.2%	39.7%	6.1%

In addition, PricewaterhouseCoopers' 2002 Global Survey and other PwC studies regarding "effective people management" have found that companies rating high on their HR strategy index showed 35% higher revenue per employee. Another interesting finding to emerge from the 2002 Global Survey is that organizations with lower absenteeism have higher profit margins (Breen, 2003).

Despite productivity gains in many sectors, labor force projections indicate that workforce shortages will continue for the next 20 years (U. S. Bureau of Labor Statistics, 2001). The most resilient organizations are staying ahead of this curve by collecting internal data that measure the economic impact of their human capital initiatives.

"What's Not Measured Can't Be Counted"

If measurement is fundamental to business success, and work/life initiatives are so essential to effective business performance, why haven't companies made a concerted effort to collect data to measure "ROI" of human capital initiatives? The answer is simple, because unlike other business industries, those in the work/life field haven't been expected to ... and why go there if we don't need to?

Simply, the media campaign, (i.e. the desire to be on the "100 Best" lists[2]) has worked even without having to present hard numbers (Shellenback, 2000). And although there have been studies that have started to investigate the economic returns to businesses that embrace work/life and human capital effectiveness strategies, most companies have bought into the "feel good" idea that these programs work and make a difference for employees, businesses and the community at large; accountants, actuaries, and other bean counters need not apply!

Other reasons given for not rigorously collecting human capital data:

- Too complex. "How do you measure the cost of human behavior?"
- No training. "I don't know where to begin or how to proceed."
- No established standards. "How do I know I am measuring the 'right' things?"
- Lack of resources. "In today's tight economy, I don't have the resources – time, expertise or money."
- Fear of accountability. "What if I find out my program is not successful. I do not want to be accountable for poor financial decisions."

Why Should Companies Collect "ROI" Information?

Companies and those interested in moving the work/life and human capital field forward are interested in collecting metric data, not only to further understand employee and management behavior, needs and values, but to ground their work in key business drivers. Focusing on business drivers leaves less room for the perception that work/life initiatives are of "soft" value to the company and helps position HR, Organizational Effectiveness (OE) and child care professionals strategically as credible business partners – effectively opening up a seat "at the table". Collecting and measuring "ROI" data helps HR, OE and child care professionals inform and support decisions before programs are implemented. Instead of being in the awkward position of "propose and defend," it affords accountability for the programs recommended. Good data also sustain the viability of effective initiatives and permit timely elimination of programs that are not effective. Collecting data and calculating metrics also allows corporations to benchmark against one another helping to position themselves as "employers of choice" and/or "100 Best". Last but not least, in an era where the focus on business has finally come around to the human capital aspects of business performance, the current corporate focus on people (rather than processes) presents an important strategic opportunity for HR professionals.

The purpose of collecting "ROI" information is to cost justify the value of current programs, and new initiatives, by estimating hidden costs and calculating the economic return or benefit to the organization. But where does an organization start, what kind of data can be collected and where can one look in his/her organization for credible information?

The 5 Step Plan

The following is a 5 Step Plan (Shellenback, 2000) for HR, OE and work/life professionals to use to initiate data collection, including possible sources of data.

Step 1: Create the Research Advisory Team

Creation of a research team is the first step in collecting good data. This team will serve as an advisory resource committee for the project. In considering who to invite to participate on this team, you must consider the key stakeholders in the process. Who has a stake in the outcome of this project and who can bring resources or a unique perspective to the table? Invite HR professionals who manage HR and benefit data, conduct exit interviews, recruit employees, collect federal and state employee information, etc. OE professionals can also be strong team members lending performance management and cultural audit information. It is important for the advisory group to consist of HR and OE members, but it is critical to involve other functional areas that may not be historically focused on human capital issues, but are concerned about operational issues and traditional business drivers. The team, therefore, should also contain senior and executive level management including operational managers, finance and facilities. Others who must be included are those who are considered, "nay sayers" and those who belong to and often spearhead the "gossip underground". It is extremely important to bring these individuals into the discussion so they can be fully informed and also educate the team on possible resistance and challenges to the success of the initiative. Furthermore, if you are able to convert this constituency and address their concerns, these individuals often become staunch "champions," advocates and credible spokespersons of the project/ process.

The last group to consider is an outside professional who is experienced in research and evaluation projects. Not only can an outside perspective be extremely illuminating, but often these professionals can lend credibility and expertise that only an appropriately-credentialed outsider can bring.

This team is responsible for creating the research plan, discussing and adapting roles and responsibilities of team members, discussing opportunities and challenges, as well as executing all levels of the "5 Step Plan".

Step 2: Determine Success Factors - The Guideposts for Measurement

The first responsibilities of the advisory team are to 1) Identify the key business drivers of the organization, 2) Identify the outcome variables linked to the key business drivers that need to be studied and 3) Specify the objectives and expected outcomes of the research project.

The team must decide what success will look like and how this success will link to the organizational business drivers. The "links" should be clear and compelling. The team must then 4) Create measurable standards by which to gauge success. Again, these measurable standards must be linked to the key business drivers. For example, if the team decides that "employee commitment" is a key outcome variable then the group must also define what success of that variable would look like (measurable standard).

Example: Possible measurable standards for outcome variable: "employee commitment"

- Decrease regretted loss[3] turnover by 30%
- Increase employee satisfaction rates on annual survey to 75%.
- Decrease absenteeism by 20%.
- Increase productivity by 25%.

The business drivers are your "guideposts for measurement". Start with the objective and go after measurements that are relevant to it.

Depending on the key business drivers in your organization, the team may want to focus on one or a variety of variables. The team should decide on the level of complexity of the project. Will the study be an informal assessment researching one outcome variable or a formal evaluation project assessing multiple outcome variables linked to appropriate key business drivers? What are some other outcome variables organizations can measure? (see graphic on page 6)

Step 3: Design the Research Process

The next step is to determine the information needed and then create the Methodology and Communication Plans. Two types of data can be collected: outcome measures and investment/cost measures.

Outcome Measures:

Outcome measures refer to data that are outcomes of the new or newly studied human capital initiative. Outcome measures can be qualitative, quantitative or both. There are many different sources of data for outcome measures:

- self-disclosed (employee survey, interview, and/or focus group data),
- behavioral (i.e. decreased absenteeism),
- financial (increased revenue, cost savings),
- non-financial outcomes that can be translated into financial equivalents (i.e. turnover).

In addition, will the team collect baseline data (data before the study or intervention begins), such as current employee survey data on employee satisfaction levels and current turnover rates? Will the team collect formative data (data collected during the project)? For example, employee satisfaction data could be collected from focus

The cost of turnover is even more important. A 1992 study found replacement costs to be one and a half times the annual salary of an exempt employee and three-quarters of the wages of a non-exempt employee (Phillips and Reisman, 1992). This estimate has been replicated/validated in numerous national studies over the past decade and is considered the standard rate, although some studies argue that, for exempt employees, the cost can be as high as 250% of annual salary (Carillo, 2004).

Costs of Work/Life Related Turnover

Of 2,727 survey respondents at ABC Company, 42.4% report actively looking or considering looking for a more flexible job at a different company to manage work and personal life.

Assuming 1/3 of those looking or considering looking actually leave ABC Company, the estimated replacement cost of work/life related turnover for these survey respondents at ABC Company is $22,440,000.

Calculation:
Assumption: avg. salary (exempt) = $50,000
Assumption: avg. salary (non-exempt) = $28,000
Assumption: 70% of the population is exempt, 30% are non-exempt

42.4% of 2,727 employees = 1,156 employees
33% of the 1,156 employees looking to leave actually leave = 382 employees
Replacement cost per exempt employee ($50,000 x 1.5) = $75,000
Replacement cost per non-exempt employee ($28,000 x .75) = $21,000
267 separated exempt employees x $75,000 = $20,025,000.00
115 separated non-exempt employees x $21,000 = $2,415,000.00

Total Cost: $22,440,000 out of a payroll of over $118 million. (includes only survey population estimates)

Costing Out the Solution

Once the costs of the problem are known, the benefits of work/life policies can be calculated as well. Businesses want to be sure their investments provide a return… or at least break even. Four methods for determining financial return (Cohen, 1999; Cascio, 1999) are described below: 1) Cost/Benefit Analysis, 2) Return on Investment, 3) Break Even Point, and 4) Payback.

Cost/Benefit Analysis

Formula: Cost/Benefit Analysis = Savings or Profits (Direct and Indirect) - Costs (Direct + Indirect)

This formula does not measure relative return on investment, but instead measures overall profitability. Although this calculation can be complex, it is most accurate when all appropriate direct and indirect costs and savings are included.

ROI (Return on Investment)

Formula: $\textbf{ROI} = \dfrac{\textbf{Change in Operating Revenue}}{\textbf{Investment in Program}}$ or $\dfrac{\textbf{Total Benefits - Total Costs}}{\textbf{Total Costs}}$

This formula compares the relative profitability of a program with the investment required to implement and maintain it.

Example: Change in Operating Revenue ($500,000) of a Back-up Child Care Center after investment of School – Age Summer Camp component ($200,000).

Formula Example: $500,000/$200,000 = Return of 2.5 (Positive ROI)
Return of $2.50 for every $1 invested.

Break Even Point

Formula: $\textbf{Break Even Point} = \dfrac{\textbf{Fixed Costs}}{\textbf{Cost Savings per Unit}}$

This formula helps one understand the usage rate needed in order to re-coup costs.

Example: Fixed annual costs to operate an On-site Corporate Child Care Center with large Infant Care component = $800,000 per year. Cost savings (avg. retention savings for a new parent based on avg. turnover costs per exempt professional = $40,000 salary x 1.5 (Phillips and Reisman, 1992) = $60,000.)

Formula Example: $800,000/60,000 = Must retain 13.3 new parents per year to re-coup costs.

Payback

Formula: $\textbf{Payback} = \dfrac{\textbf{Net Initial Investment}}{\textbf{Expected Net Annual Related Profits and/or Savings}}$

This formula measures how long it will take to re-coup an investment.

Example: Initial investment costs to build an On-site Corporate Child Care Center = $800,000. Net Annual Savings = $570,000. (Net annual savings can come from decreased employee absenteeism and/or turnover costs, increased productivity, savings from consolidating child program administration, and possibly other outcome variables as depicted on page 8.)

Formula Example: $800,000/570,000 = 1.4 Years

Step 5: Use and Communicate Findings to Enhance Business Practices

The final step requires communicating findings to enhance business practices. Sharing the results with those inside and outside the organization who can affect the desired change is the critical "final" step in the process. However, effective research requires a cyclical evaluative cycle to re-examine results and assumptions, so the results should never be considered truly "final". It is essential to continue to monitor progress, opportunities and challenges and… when business drivers change…so will the research foci and outcomes.

In addition, communication methods and messages regarding the results need to be adapted for different audiences; the CEO, Board of Directors, and shareholders may need the information in a different format and "spin" from what is presented to employees. Furthermore, managers need this critical information presented in a format that is applicable, practical and in a way that trains supervisors to make use of new management opportunities. Each constituency will apply the data in different ways depending on the lenses they utilize, and some individuals will understand the data and its implications in multiple ways depending on the multiple roles they play (for example: an executive, who is also a manager, employee, parent and caregiver.)

In conclusion, this paper has outlined that continuous and comprehensive measurement of human capital initiatives in organizations is an essential practice of resilient and financially successful organizations. While more and more organizations have realized that measurement is critical, many do not know where to start. This article has presented current research, as well as a comprehensive "5 Step Plan" with example calculations to help those interested in collecting data on the effectiveness of work/life initiatives.

Notes

[1] The "100 Best" list for Fortune Magazine is selected primarily on the basis of employees' responses to the Great Place to Work® Trust Index©, a proprietary employee survey developed by the Great Place to Work® Institute. In addition, the Great Place to Work Institute evaluates materials submitted by the company, including the company's response to the Great Place to Work® Culture Audit© (demographics, finances and revenue, overall culture, benefits and perks - such as child care and onsite fitness centers), any accompanying materials submitted by the company for consideration, as well as information gathered from other reputable sources such as media stories about the company.

[2] Refers to the Fortune/Great Place to Work: "100 Best Companies to Work For" and Working Mother Magazine: "100 Best Companies for Working Mothers" lists.

[3] Lingle, Kathy. (2001). Term "regretted loss" refers to those individuals who have left the organization whom the organization wished to retain (personal communication).

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- *40 percent felt less stressed by family responsibilities and spent less time at work worrying about their family.*
- *35 percent were better able to concentrate on work.*
- *30 percent had to leave work less often to deal with family situations.*
- *Employees felt that use of ABC-supported child care had improved their productivity at work.*

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Research conducted by Work Options Group indicates that the true cost of absenteeism equals a minimum of two times the actual hourly wage of workers. Christopher Gatti, our president, says "An employer must take into account the actual wage, benefits, supervisors' time and lost opportunities resulting from absenteeism, when calculating the true cost to a company. In some cases, as in the case of employees responsible for direct revenue for a company, this might even be a conservative number. The average employee really wants to try to figure out the best way to meet the needs of their family – and meet the needs of their job. If a reliable, affordable and trustworthy option is available to do both, they're open to trying it."

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- *The average per-employee cost of absenteeism climbed to an all-time high of $789 per year in 2002, up from $755 in 2001.*
- *This higher cost comes despite a slight decline in absenteeism rates from 2.2 percent in 2001 to 2.1 percent in 2002 and reflects a price tag of as much as $60,000 a year for small companies, while the largest employers ante up more than $3.6 million.*
- *Personal Illness accounted for 33 percent of no-shows. However, reasons other than illness accounted for 67 percent of unscheduled absences. Specifically, these reasons were: Family Issues (24 percent); Personal Needs (21 percent); Stress (12 percent); and Entitlement Mentality (10 percent).*
- *Morale seems to make a difference: companies that reported Very Good / Good morale had a lower absenteeism rate (1.9) compared to those reporting Fair/ Poor morale (2.4). The effects of September 11 also were much more likely to contribute to a change in unscheduled absenteeism rates among organizations with lower morale.*
- *When it comes to combating unscheduled absenteeism, the two work-life programs rated as most effective were Alternative Work Arrangements and Compressed Work Week. Other programs receiving high ratings included: Leave for School Functions, On-Site Child Care, Employee Assistance Plans and Telecommuting.*
- *Paid Leave Banks (also known as paid time off) continued to be ranked as the most effective absence control program. However, fewer than one-half of organizations have adopted Paid Leave Banks, while nearly all organizations report using Disciplinary Action.*
- *Reducing employee no-shows doesn't appear to be likely in the near future: 83 percent of companies surveyed believe that unscheduled absenteeism is likely to stay the same or get worse in the next two years.*

The 2002 CCH® Unscheduled Absence Survey surveyed 333 human resource executives in U.S. companies and organizations of all sizes and across major industry segments in 43 states and the District of Columbia. The survey reflects experiences of randomly polled organizations with an estimated total of nearly two million employees.

The 2002 CCH® Unscheduled Absence Survey, conducted for CCH® by Harris Interactive℠ and now in its 12th year, is the definitive survey on absenteeism in the workplace and the only one that measures costs associated with unscheduled absences. It contains detailed findings including additional press releases and charts depicting survey data.

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- *Freddie Mac witnessed 1,607 visits to its backup daycare center in 2002. Employees contributed a copay of $15 for each visit. Cost-benefit analysis shows the company saved $40,000 in productivity and $73,000 in turnover costs.*
- *For every $1 invested in backup child care, employers can expect a return of $3 to $4 in productivity and reduced turnover, according to an estimate by WFD Consulting. Rosemary Jordano (CEO of ChildrenFirst) says her clients' experiences have confirmed that.*

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LINKING ECONOMIC DEVELOPMENT AND CHILD CARE RESEARCH PROJECT
DEPARTMENT OF CITY AND REGIONAL PLANNING
CORNELL COOPERATIVE EXTENSION
W. SIBLEY HALL CORNELL UNIVERSITY ITHACA, NY 14853-6701
EMAIL: childcare_econ@cornell.edu WEBSITE: http://economicdevelopment.cce.cornell.edu

NATIONAL TECHNICAL ASSISTANCE CENTER
1100 Wake Forest Road
Raleigh, NC 27604
www.ncsmartstart.org